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STATE PLEASE PASS TO USTR KATE DUCKWORTH
STATE FOR WHA/BSC, WHA/EPSC, EEB/TRA/OTP, EEB/IFD/ODFTREASURY FOR
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SUBJECT: CHILE'S TRANSANTIAGO: SEARCHING FOR CONSENSUS

REF: SANTIAGO 812

¶1. (SBU) SUMMARY: The Ambassador met with Transportation Minister Rene Cortazar December 17 to request an update on Transantiago. Cortazar explained the latest improvements in the capital city's public transportation system. The GOC is working with the Congress to reach an agreement on funding Transantiago. Cortazar is proposing to resolve three specific issues: a broader mass transportation policy, a long-term financing mechanism for Transantiago, and repaying the IDB. Cortazar is optimistic he can reach an agreement with Congress on these issues in January 2009. He affirmed the GOC would likely use the 2% Constitutionally-permitted emergency budget to fund Transantiago in the meantime. Cortazar implied the same 2% could be used to repay the IDB loan, though he gave no specifics. Recent press reports indicate Cortazar is still locked in negotiations with key members of the opposition to reach an accord on Transantiago. Post believes the Minister's January timeframe for an agreement may be ambitious. END SUMMARY.

Background on IDB Loan to Transantiago

¶2. (U) As detailed in ref, the InterAmerican Development Bank approved a \$400 million loan in April to improve Transantiago, the city's problem-fraught public transportation system. The funding was given to the Transportation System Financial Administrator (AFT), the private consortium of banks that administer Transantiago. The IDB loan was guaranteed by CORFO, Chile's state development promotion agency. The IDB conditioned the loan on GOC passage of a law providing permanent financing for Transantiago.

¶3. (U) The Chilean Congress did not approve the draft law (due to opposition votes against it). The opposition argued the transport system was a failure, the financing mechanism proposed was not transparent, and the system discriminated against other mass transportation systems in Chile. Congress' rejection of the law placed the GOC and AFT in a difficult position facing a "Default Event" on the loan. Furthermore, in September, the Constitutional Tribunal ruled unconstitutional the terms under which the GOC, AFT, and IDB negotiated the loan.

¶4. (U) The GOC was forced to start from scratch in drafting a plan to fully fund Transantiago, which continues to run an operating deficit. The Government said it would consider using the Constitutionally-permitted 2% of the budget set aside for national emergencies. In addition, Minister Cortazar and his staff started consultations with the opposition to find a solution. The GOC is also still on the hook to repay the IDB loan, in a manner that is in keeping with the Constitution.

¶15. (U) In October, the Chilean Congress formed an Investigative Committee on Transantiago. The Committee has 50 working days to investigate whether management of Transantiago has been appropriate and legal, including the administration of the IDB loan and other loans provided by Chilean entities. The Committee has requested hearings with several ministers, other government officials, and IDB representatives in Chile. On January 5, 2009 the Committee will close its investigation and issue a final report to be voted on by the Chamber of Deputies.

Cortazar Tells Ambassador: We'll Have to Use 2%

¶16. (SBU) The Ambassador, Econoff, and Econ Specialist met with Minister of Transportation Rene Cortazar December 17, in response to the Ambassador's request for an update on Transantiago. Cortazar said there had been gradual improvements in the system. The system had recently implemented GPS technology and old, short-distance shuttle buses had been replaced with newer models. Cortazar acknowledged the public still held a dismal view of the system, but the increase in coverage, routes, and the number of buses was improving the public's evaluation of Transantiago.

¶17. (SBU) Cortazar also told the Ambassador the level of users' fee avoidance had dropped from about 40 percent to 11 percent during recent months. Although falling gas prices could have helped Transantiago's budget deficit, they had been offset by the Chilean Peso's depreciation against the U.S. Dollar. Cortazar stressed that several technical issues still needed fixing. In order to pressure bus operators to continue improving service, the Ministry of Transportation had been forced to fine some operators and cash in guarantees for some companies that had missed negotiated deadlines.

¶18. (SBU) The Ambassador asked about long-term solutions to financing Transantiago. Cortazar was optimistic current GOC efforts to reach an agreement with the Senate's Transportation Committee would bear fruit. He noted he was working on three main policy areas: a broader mass transportation policy (including in areas outside the capital), a permanent and long-term mechanism to fix Transantiago's financing, and repayment of the IDB loan. According to Cortazar, despite some recent public statements to the contrary, the opposition was willing to work with the GOC on these issues. This included key members of Sebastian Pinera's (RN) opposition presidential campaign team. Cortazar expected the GOC and opposition could reach an accord in January 2009. Until then, he thought it likely the GOC would have to resort to the 2% emergency budget to fund Transantiago.

¶19. (SBU) The Ambassador underlined the importance of the GOC's prompt repayment of the IDB loan, not least to keep Chile's international standing unblemished. Cortazar implied the GOC could use the 2% emergency budget to pay back the IDB loan as well, though he gave no further specifics. [Note: Post believes the GOC would need to pass special legislation for this purpose in order to make the payments constitutional.]

Negotiating an Agreement

¶10. (U) Subsequent to the Ambassador's meeting with Cortazar, GOC Spokesman, Minister Francisco Vidal, confirmed publicly that Cortazar was engaged in negotiations with the opposition and Sebastian Pinera in order to reach an agreement on issues related to Transantiago (these meetings had not previously been made public). Press reports during the weekend of December 20 indicated members of the opposition met to strategize on finding an acceptable resolution to Transantiago with the GOC.

¶11. (SBU) Comment: Although Minister Cortazar is optimistic the GOC and Congress can reach agreement in January, this date may be a little too ambitious. Congress enters recess on January 23. While it is possible the GOC and members of the opposition in Congress may reach a resolution and draft an agreement by that date, it will be difficult. It is unclear whether the ongoing negotiations have tackled repayment of the IDB loan, which so far has garnered little public attention. Given the complexity of the issues and the

limited time available before Chile starts its period of summer vacation, an agreement on Transantiago may be postponed until March [2009](#).
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